



# **COMPANY DIVERSIFICATION STRATEGIES**

The Case of BIS group in London, UK

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## **ABSTRACT**

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In this thesis the author sort to seek insight into the available corporate diversification strategies that can be adopted by the commissioning company British International School group. This thesis outlines the company structure and its current level of diversification and tries to provide the company with solutions in implementing a favorable diversification strategy that is best suited with the company's current condition.

The thesis employed various methods of research which included but not limited to collecting, researching and analyzing theoretical information accessed through books, academic journals, electronic books, internet sources among more, British International School's own data base and lastly findings which were gained through an open – ended questionnaire administered to the management and intern teams of the company.

Eventually the author drew the conclusion that BIS group was facing enormous challenges due to its organizational and management structure, it was observed that these challenges are acting as a huge hindrance to the company's goal of attaining a diversified firm. Therefore as a result the company should restructure its organizational structure and work on its core competences before taking any steps towards diversification. In other words the company needs to lay a firm foundation using its main business activities to strengthen and gain more competitive advantage in its initial market before expanding through diversification in search of better performance and growth.

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Key words: BIS group, diversification, value chain, competitive advantage

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## 1 INTRODUCTION

Business activities have by a great extent metamorphosed during this era of the 21<sup>st</sup> century and in the wake of globalization. Globalization has been a process that has brought about change, interdependence and increased interconnectedness among countries, businesses and economies at large, therefore bringing the world closer through better worldwide communication, transport and trade links.

The process of globalization is a phenomenon in human history since the time of early trade and exploration, through the exchange of goods, products, knowledge and culture. What is unique now is the emergence of a modern form of globalization in recent decades, aided by the pace and scope of global integration resulting from unmatched advancements and reduction in costs of technology, transport which in the bigger picture has largely cut the costs of doing business within domestic economies and across borders as well. Markets have become more interwoven and the production process has been made more efficient by the option to create world products', and the ability to ship products and information easily and cheaply from one country to the next and to locate the manufacturing process where labour and work processes are less expensive has changed the pattern of business activities and consumption across the world (21<sup>st</sup> Century challenges, 2008 - 2014).

The cost of how people communicate and travel has drastically reduced in the last few decades, from cheaper air travel and high speed rail to the rapid growth of the internet and mobiles phones, in addition increasing number of people are now able to move from one part of the world to another in search of greener pastures. This has been the trend within the business community as more and more businesses are expanding beyond their home countries or headquarters to existing markets or even venturing into untapped markets. Electronic transfer systems have enabled the swift movement of money globally, thanks to trade organisations like the World Trade Organisation (WTO), lowering of trade barriers has been realised hence a major factor in the growth of world trade. It's worth noting that in recent years developing countries are becoming a more common place for international investment due to the huge potential of growth.

It's against this background that this paper aims to seek ways in which a firm operating in this modern era of globalization can take advantage of the numerous platforms of growth to expand its business activities through various diversification strategies to achieve optimal growth in its financial capability.

## 1.1 Thesis background

This thesis is anchored on the author's interest in international trade, business related activities and entrepreneurship, as well as the need to provide possible solutions to the commissioning company on the above mentioned thesis topic. It's almost the aim of every enterprise to gain growth and there are a number of ways an organization can grow. For example a company can decide to achieve internal growth which is otherwise referred to as organic growth, or a quicker but riskier option of external or inorganic growth. This involves acquisitions and mergers. In so doing it's therefore essential for all parties involved in decision making to come up with the best strategies and most favourable for company growth. One of the biggest benefits of company growth is the reduced costs through economies of scale, by lowering costs a company consequently increases its profitability and becomes even more competitive.

A strategy is something that affects every operation or business activity in an organization. It's about an enterprise using every resource in its possession to create value for others. This includes customers, employees and shareholders. There various strategies that can be employed to achieve potential growth in a company, but on this particular paper emphasis is been laid on diversification as one of the tools to achieve company growth.

One way of analysing the various strategies that an enterprise may use to grow is with Ansoff's Igor matrix (1957). This considers the opportunities of offering existing and new products within existing and/or new markets and the levels of risk associated with each.

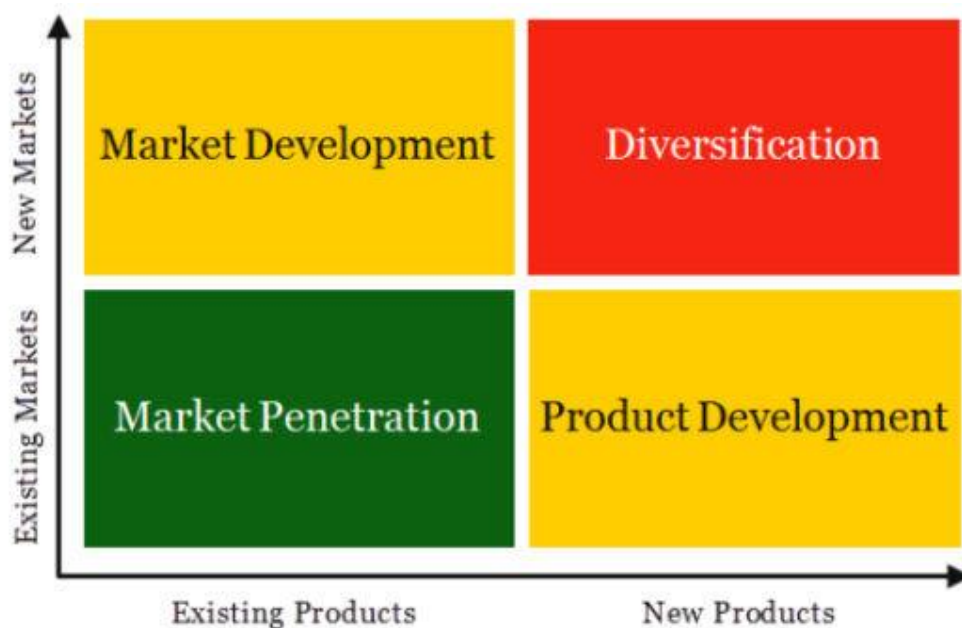


FIGURE 1. Ansoff Matrix (Ansoff Igor, 1957)

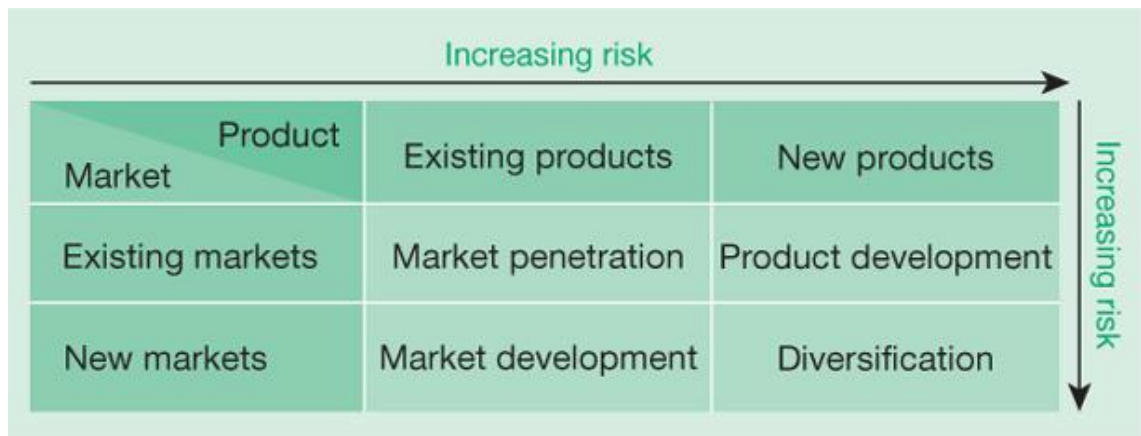


FIGURE 2. Diversification by risk (Business case studies)

In the above figure 1 it can be drawn that diversification involves developing new products and offering them into new markets simultaneously. While in figure 2, diversification can be considered as the most risky strategy as it involves the firm expanding into areas outside its core business activities and experience as well as targeting new consumers, the firm has to bear the costs of new product development. However diversification provides the opportunity explore new business avenues, spread risks, and creates a path to move the business into new and potentially profitable areas of operation.

Why is this topic important? Because it:

- Provides insight into diversification as a strategy for company growth
- Seeks to provide solution to companies in similar situation as the commissioning company
- Provides update into the said issue

It gives insight; the main issue is that the commissioning company requires enough awareness on how it can properly diversify its activities while cutting on unnecessary cost. This is where strategy is involved.

It's an avenue of information for other companies, as earlier mentioned many companies seek to venture into new markets or expand their business activities, the topic caters for these needs through information on how to expand in the right proportion.

Through up to date research materials such as literature, journals and interviews information on the subject matter is scrutinized to provide the trends within the said topic. Information in the globalization era moves fast and swiftly but it is subject to change equally fast, therefore companies need to be always informed of new happenings in their own market scope or even the global economy at large.

## 1.2 Goals and research methods of the thesis

Using the research question, what are the ideal diversification strategies to use to gain optimal growth for the BIS group?, the author of this thesis will make the primary goal to be gaining insight into the current diversification process at the British International School group, explore the strengths and weaknesses of the current structure and how these factors can act for or against the achievement of an optimal company growth through diversification.

Other important goals of this thesis are finding out appropriate diversification options that are best suited with the commissioning company, in addition the thesis will find out the plans and resources available for its diversification strategies through an open – ended questionnaire taken by the management team. The Author also employs desk research through utilization of online and published secondary data, primary data gained from company records and lastly a brief interview with an expert in matters relating to business diversification. Results from these research methods will provide a base to analyse and provide more feasible and practical recommendation.

## 1.3 The thesis structure

The thesis will start by highlighting works of various authors who have researched on corporate diversification strategies, the thesis will pay more attention to the strategy of diversification, by taking a closer look at its various types.

The author will try and come up with a theoretical framework within which the topic of discussion will be based on. It's worth noting however that it's difficult to come up with an all-inclusive theory for this topic, thus the topic is broken down into smaller components based to the thesis objectives. These components will draw from particular theories and interconnect to each other and at the very end come up with a wholesome summary in entirety.

## 1.4 Limitation of the study

This thesis revolves around theories pertaining to company growth. The main focus of this paper is diversification as a tool to enable BIS Group Company's growth. The author elaborates on what's diversification and its various types. The paper covers the modes of entry into new markets and lastly analyses the current situation at the BIS Group and suggesting possible recommendations for improvement. However the paper does not cover detailed ways of implementing diversification strategies.

## 2 DIVERSIFICATION

Diversification can be defined as a company's entry into new or untapped markets or industries providing new lines of business activities or new products, either by processes of internal business development or acquisition, which entail changes in its administrative structure, systems, and other management processes (Ramanujan and Varadarajan 1989; 523- 551). Diversification is considered as a business strategy targeting company growth by aiming to increase financial gain through greater sales volume reaped from new products and markets. In the current business conditions of dynamic markets and strong competition, the risk of carrying all the firm's eggs in one industry basket can be circumvented by this instrument of risk management whose focal point is not on a single service, product or their distribution to a solitary limited market. When implemented in the right manner diversification can cushion a firm from economic downturns which usually occur simultaneously in all sectors and markets, thereby keeping the company stable through the hard times.

Proper diversification of business activities brings about competitive advantages. Therefore many companies see it as an ideal tool for business development. Nevertheless, its successful implementation needs profound knowledge and thorough initial assessment of the company and its business environment. And, although sometimes diversification is difficult for small companies, it can prove to be inevitable when their original markets become unviable.

### 2.1 Types of diversification strategies

Diversification is a strategic approach adopting different forms. The first decision to be taken after opting for diversification is the degree of correlation among the various business ventures. Both the related and unrelated types of business diversification have advantages and disadvantages that the company managers have to evaluate carefully.

The two types of diversification take several forms. According to data published on strategy train website, diversification can take four forms which can be categorised under the two major types of related and unrelated diversification strategies (Diversification for SME's, 2009). The four forms of business diversification are:



### ***Horizontal diversification***

This form involves a company adding similar products to an already existing line of business targeting current customer groups. It allows a company to move outside its comfort zone in terms of product manufacturing by tapping into their own market share of loyal customers. The company tends to rely on sales and technological relations of existing product lines by leveraging the brand loyalty associated with current products. A possible downside of this form of diversification can be the company's dependence on one group of consumers.

### ***Vertical diversification***

This occurs when a company goes back to previous stages of its production cycle or moves forward to subsequent stages of the same cycle – production of raw materials or distribution of finished products. For example, a construction firm can engage in the business of selling paint and other construction materials in the same business.

### ***Concentric diversification***

This involves enlarging the production portfolio by adding new or similar products to an already existing successful line of business, with the aim of fully utilizing the potential of the existing marketing system and technologies. This form of diversification can be more financially efficient as a strategy, since the business may benefit from synergies in the diversification model. The business may enforce some investment related to modernizing or upgrading existing processes or systems. For example, a computer manufacturer that produces personal computers using towers begins to produce laptop computers. The technical knowledge needed to accomplish this new task comes from its pool of skilled employees.

### ***Conglomerate diversification***

When companies engage in this form of diversification strategy, they are often trying to venture into previously untapped markets. This entails moving into new products or services that have no technological or commercial relation with current products, equipment,

distribution channels, but which may appeal to new groups of customers. This can be a huge leap of faith as company's current management has limited knowledge of the new unrelated market but this strategy can lead to high returns on investment in the new industry, can open up additional opportunities which can help to further develop the main company business, access to new technologies and creates opportunities for strategic partnerships. Companies can achieve this form of diversification strategy through acquisition or merging with firms in the desired industry (Diversification for SME's, 2009)

As earlier mentioned there are two types of diversification strategies.

### 2.1.1 Related diversification

Businesses are said to be pursuing related diversification when their value chains possesses competitively valuable cross – business matchups (Kannan P.; Saravanan R. 2012.). This cross business relationship creates opportunities for superior performance in individual areas of business operation rather than the businesses operating as autonomous entities. It's worth noting that related diversification has a strategic appeal from several angles. It allows a firm to reap the competitive advantage benefits of skills transfer, lower costs of doing business, exploiting common use of a well-known brand name, and a stronger competitive capabilities over a broad business phase as well as creating unity across the company's various business activities.

TABLE 1. Related diversification firms

<i>Johnson &amp; Johnson</i>	<i>Pepsi Co</i>	<i>Gillette</i>	<i>Procter &amp; Gamble</i>
Baby products	Soft drinks	Blades and razors	Laundry products
First-aid products	Juices (Tropicana)	Toilet products	Beauty products
Medical devices	Bottled water,	Toothbrush	Hair care products
Surgical equipment	Snacks food	Shavers	
Personal care products	Breakfast products	Hair dryers	Household cleaning products

In the above table 1, samples of companies whose pursue of a related diversification strategy has been illustrated. It's clear in the product range they produce the evidence of this type of diversification.

### **2.1.2 Unrelated diversification**

This type of diversification strategy pursues an opposite path to the former mentioned strategy above. In this type businesses are said to be engaged in unrelated diversification when the activities comprising their respective value chains are so dissimilar that no competitively valuable cross - business relationship is present (Kannan P.; Saravanan R. 2012.).

Companies that show the willingness to venture into this type of diversification are always ready to diversify into any industry where there is potential for the company to achieve growth and better financial results. A strategy of unrelated diversification involves no deliberate effort to seek out businesses having strategic fit with the firm's other businesses.

The advantages of this type of diversification are evident, first and foremost, the spread of risk. The risks involved in conducting business can be spread over firms whose activities completely differ from each other. It raises the prospects of the firm to invest in any potentially profitable sector without worrying of the correlation with the core business. Another major advantage is the fact that the profitability of the company is not dependent on the positive or negative peaks of the economy as this type of diversification is based on different markets with different trends. However challenges such as managerial capacity can be encountered. Conducting profitability evaluations of a market completely different from the core business requires huge managerial capacity. This is because the process's success is highly dependent on experience and knowledge of a market completely different. Other challenges may include the ease of flow of information within the company, in some instances the central management can experience stress and is prone to error than in cases of related diversification.

It's very tempting for a business leader to diversify using related or unrelated strategies, but it must be understood that it's a very complex task. Hence any such move must be planned and executed with great care. The diversification strategy matrix shown below

can help the business leader in choosing the strategy suitable for diversifying the business activities.

		Growth	
		High	Low
Profit	High	Mixed Diversification	Related Diversification
	Low	Unrelated Diversification	Divestment

FIGURE 3. Diversification Matrix

In the above figure an inference can be drawn that when companies whose main focus is profit, then it is wise to venture into related diversification strategies, where the profits are high, less growth and low risk level. On the other hand a company focusing on growth can undertake unrelated diversification strategy aiming for high growth, lesser profits than the former and medium risk level. In the case where a company experiences low growth and profits, divestment can be a solution to achieve better results.

## 2.2 Reasons for companies to apply diversification strategies

There are various reasons that lead the management of a company to explore diversification strategies. Drawing reference to the works of Grant and Montgomery it's possible to compile a list of reasons why companies diversify their business activities.

- Risk Based view
- Market power View
- Agency theory
- Resource based view

**Risk based view:** The major aim of diversifying companies is to reduce the risks involved in conducting business. This is achieved through distribution of company activities in more areas with varying degrees of risks and economic cycles. When one of the assets returns is lagging, the results are offset by a more positive performing asset, hence ensuring certain stability in income.

Market power view: Edwards (1955) observes that this is the work in most markets that benefits the company as a single market. A company that produces and operates in many markets doesn't need to look at maximizing profits in all the markets rather its power in a given sector is also determined on the size and type of activities carried out in another sector. The author refers to the possibility of the company among others to implement detrimental policies to the competitors. For example, strong profits obtained in a given market can be used by the firm to engage in predatory pricing in another market thereby eliminating or severely damaging the competitors. Or even by the so called "bundling" (For example, Kodak, a leader in the photography market designed their own cameras so that they were only compatible with a special needle, which Kodak herself produced). This "power mix" can be achieved through diversification which increases market power and boosts profits.

Agency theory: Agency theory describes relationship between the firm's organizational structure and diversification strategy- In modern enterprises, there often a separation between individuals taking strategic decisions (managers) and individuals that have an impact on the consequences of those decisions (the shareholders, namely the owners of investments). This increases the possibility of conflicts of interest, as shareholders often do not have the possibility to control the work of managers. The manager is thus left free to pursue his personal goals in place of business ones (Denis, 1999). Diversification is seen by managers as a way to achieve their personal goals rather than maximizing shareholder's interests. In so doing the correlation between the objectives of shareholders and managers will be created when the managers are as well owners of the shares and so figures of decision makers and the recipients of decision consequences come together in same person. It therefore has a relationship of inverse proportionality between conflicts of interest and share capital held by managers.

Resource based view: According to this perspective to increase profit margins an enterprise out to diversify resources gained from excesses of production factors. Resources here refer to the acquired factors, leased, produced for own use by the company, services the company created by these factors and knowledge accumulated over time (Montgomery, 1994). The resources are often available in sufficient quantities to allow their use in different businesses, and in some cases may also increase its value when used in different sectors (benefits that the "brand" draws from increased exposure). The use of excess factors of production eliminates the costs for their disposal, it does not however necessarily make it possible to achieve higher performance in the short run. Only in the long run will

the company make more profit allowing it to source the inputs at a price highly competitive.

### **2.2.1 Economies of scope**

This term is attributed to economists John C. Panzar and Robert D. Willig (1977, 1981.) One of the main advantages derived from diversification is reduced costs so that they are lower than those of competitors, through the exploitation of the so called economies of scope. The above mentioned economists observed that economies of scope exist when there are cost benefits arising from the utilization of a resource in a variety of activities carried out jointly rather than independently. This means same resource can be used in more activities carried out jointly by the same company generating a cost advantage.

According to Porter (1987), this implies an advantage arising from the fact that the costs incurred by the company to carry out all value-generating activities are lower than those of competitors.

It's worth noting a difference between economies of scale and economies of scope, while in the case of the latter, advantages are derived from an increase in production of the same product (output), and the former the advantages are derived from an increase in the variety of output using the same resources.

### 3 MODES OF ENTRY INTO NEW MARKETS

The essential act of entrepreneurship is new entry. New entry can be accomplished by entering new or established markets with new or existing goods or services. New entry is the act of launching a new venture, either by a start –up firm, through an existing firm, or via internal corporate venturing (Lumpkin and Dess, 1996: 136).

Once a firm has chosen to pursue diversification strategy, it's essential to know which mode of entry it's going to pursue to diversify its business activity in the most efficient and profitable manner. There are numerous ways to enter into new or existing markets for a firm but this report will focus on just a few dominant entry modes which are used by diversified firms.

When a firm is drawing up its entry mode strategies, three things ought to be considered beforehand.

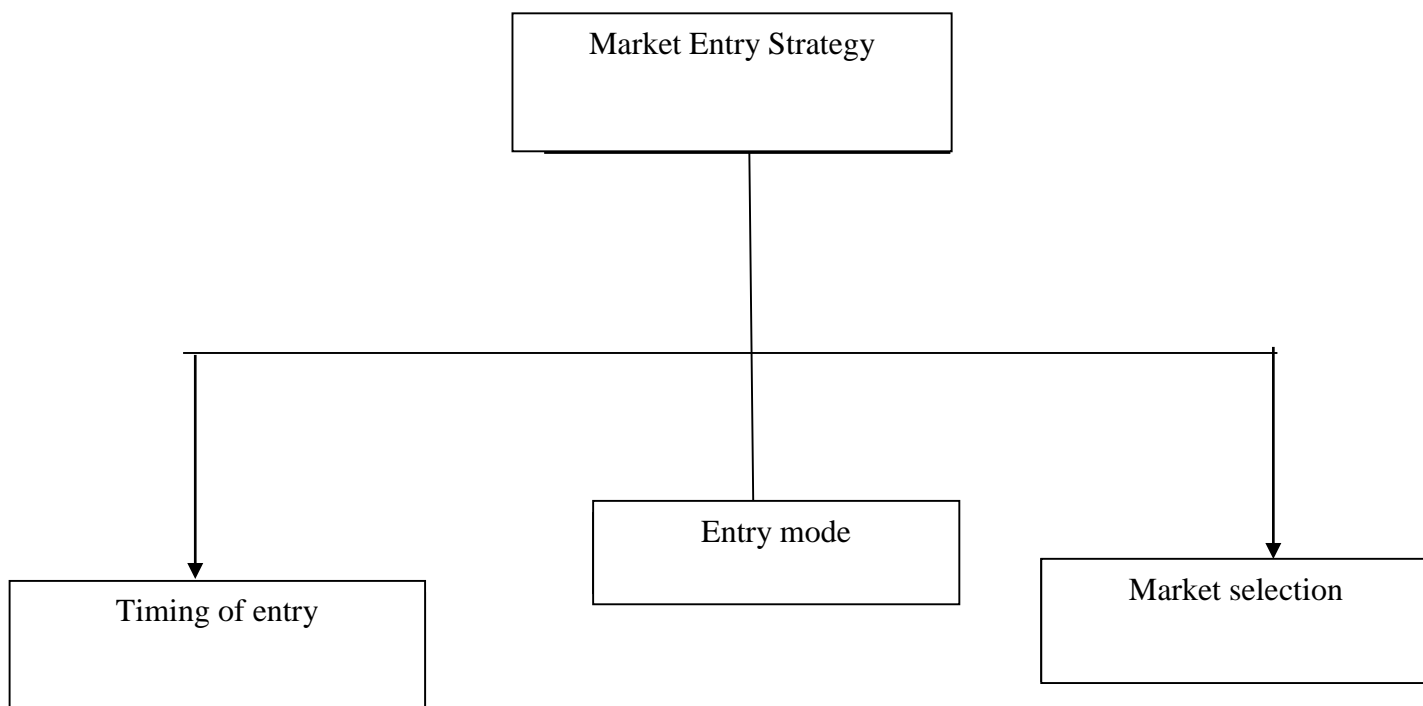


FIGURE 4. Market entry breakdown

In the above figure, it shows the three main issues to consider before venturing into a new or existing market, at the moment the author will pay attention to the entry mode.

The three mostly preferred mode of entry by diversified firms are as follows.

### 3.1 Acquisition

It's the most used entry mode by diversified firms, this is because it's a quick entry mode as it bypasses numerous barriers to market entry. This mode enables the firm to avoid difficulty and time consumption in creation of know-how, an appropriate portfolio of suppliers and customers, and promotion or publicity costs.

On the other hand a firm must weigh two options when choosing this strategy. Should the firm acquire an already established company in the desired sector at a high price or acquire a company undergoing difficulty at a lower price. The decision lays major on two factors, capital availability and the knowledge of the desired sector. These two factors compensate each other in the sense that if the firm's capital is limited to a certain level then it must have the necessary knowledge of the desired market, so as to be able to acquire a company with stagnant performance at an affordable price and work towards its growth. However if the firm has huge amounts of capital at its disposal but limited know-how of the desired sector then it's wise to purchase an already established firm with good performance at a high price to compensate for the limited knowledge of the market.

### 3.2 Joint ventures

This involves the creation of a new corporate entity owned by two or more undertakings by means of an agreement aimed at the exploitation of a win-win opportunity for all companies involved (Thompson- Strickland – Gamble, 2009).

This is a sharing concept, that is, the management of the same business by different companies. The interest in the durability and sustainability of the business is what characterizes the joint venture, and is a sort of guarantee to support the agreement between the companies involved. This is a mode of diversification often used when the target sector is too complex and risky to be operated by a single company, and when such complexity and risk require knowledge and resources too large for a single company.



### 3.3 Internal development

This is another form of company growth also referred to as organic growth. Internal development involves a firm building on its own capabilities and resources. For most businesses they only use this form of development. Internal development may involve, designing and developing new product ranges, opening new business locations – either in domestic or overseas market, investing in research and development to support new product development, investing in additional production capacity or new technology to allow increased output and sales volumes, training employees to help them acquire best new skills among many more.

Whilst these approaches are not easy, they are generally considered to be of lower risk than the alternative – acquisition or joint ventures. However, the major downside of focusing on internal development is that the speed of change or growth in the business may be too slow.

## 4 THE CASE OF THE BIS GROUP

### 4.1 Company introduction

The commissioning company trades by the name The British international school (BIS), but its official company name is school of English Chiswick SGSG as it is common in England for a company to have both names. The company is a conglomerate of the BIS group comprised of other subsidiary companies running different business activities but under single management. The British international school runs English language education to students in its London, New York, and Beijing locations. It is a proud organization in arranging unique educational programs all year round, providing individuals, professional students and groups alike with opportunities to benefit from superior language tuition alongside recreational activities and specialized courses (British International School, 2010).

BIS has a robust believe that languages help people to communicate across borders, and cultures, therefore enabling them to achieve their personal dreams and ambitions. It's along these lines that the BIS working principles, vision, and mission are based on. In addition to offering language tuition, students who visit the United Kingdom under BIS programs have a chance to participate in various recreational package tours offered by the company too. Amongst the activities is guided tours conducted in London, Edinburgh, and Dublin all year round, so students get a chance to tour various historical and tourist attractions while still taking their language classes, hence just like the proverbial saying goes, they killing two birds with one stone.

Since its inception in 2005, BIS has shown significant growth in its company operations. In 2011, approximately 5,000 individuals – including university students, professionals, and over 300 middle and secondary schools across Europe chose BIS to organize their school trips and study holidays. BIS has as well experienced growth by opening up subsidiary companies as earlier mentioned, during the summer of year 2014, Capitali, an Italian restaurant saw its doors open to cater to BIS employees, students visiting the UK under the various BIS programs, and the general public. Felfort Ltd and UK student services are the other two subsidiary companies, unfortunately their area of business operation is not well defined within the BIS group, but the latter offers support to BIS through dealing with matters related to airport transfers, accommodation, and guided tours, while the former is more into internal company consultancy of the BIS group.

The expansion of the BIS group has seen it have a total of ten departments all serving the British international school and its subsidiaries. Italian, Spanish, and Russian departments are all concerned with maintaining correspondence with existing clients within their respective countries and looking for new clients to join the company programs. Information Technology (IT), Finance, Human resources and marketing departments also are concerned with providing services and support within their scope of operation to the entire BIS group. Final two are services department, an amalgamation of various sub departments; including work experience for high school students, tour coordinators etc. And Travel department which is mainly concerned with finding suitable accommodation for visiting students, arrange airport transfers, booking tickets to various recreational facilities and ensuring students welfare in general.

As earlier mentioned BIS group is under a single management, the managerial structure is hierarchical just as many other companies out there. The Chief Executive Officer (CEO) is the senior most personnel in the entire organization as well as the co-founder and owner. The CEO oversees all company operations on a day to day basis, also the head decision maker in paramount matters affecting the organization. The Chief Operating Officer (COO) falls slightly under the CEO. The holder of this title is the co-founder and co-owner of the BIS group and plays a support role to the CEO in running the organization. The heads of departments or otherwise known as departmental managers are third in the company hierarchy, they report to the CEO and are employed on contract with a monthly enumeration. Each manager has a degree of freedom in decision making regarding activities within their respective departments. At the bottom of the ladder are company interns who all work under supervision of the respective department managers, the interns are normally contracted to the company under the Erasmus Mundus mobility program to enable them gain work experience during their university studies. They comprise the highest number of employees but are not enumerated by the company.

The entire business activities of the BIS group are housed in Enterprise house, 133 Blyth Road, Hayes, Middlesex, London, UK. The only exception is the actual school environment where students take educational classes. From the company profile above its clear that BIS has potential to expand its business operations beyond a single market. Later in this paper the author seeks ways in which this potential can be exploited by the organisation to attain growth in its operations and increase profitability through diversification strategies. It's evident also that the organisation has kick started the diversification process through the opening of its Capitali Italian restaurant whose business activities are partially related to School of English Chiswick SGSG activities. This paper will explore

the possibility of the organization diversifying further using its subsidiaries or even the main organization itself.

#### **4.1.1 The BIS group main challenges to diversification**

Drawing from the above company introduction, it's clear that the BIS group is involved in numerous business ventures which make up its product range. The BIS group is not just a language school but doubles up as also as a travel and leisure company by providing the said travel packages and accommodation. In addition the opening of a restaurant adds into its basket of business ventures. Having this in mind we therefore explore some of the challenges the author identified that hinder the company from achieving its full financial potential and growth.

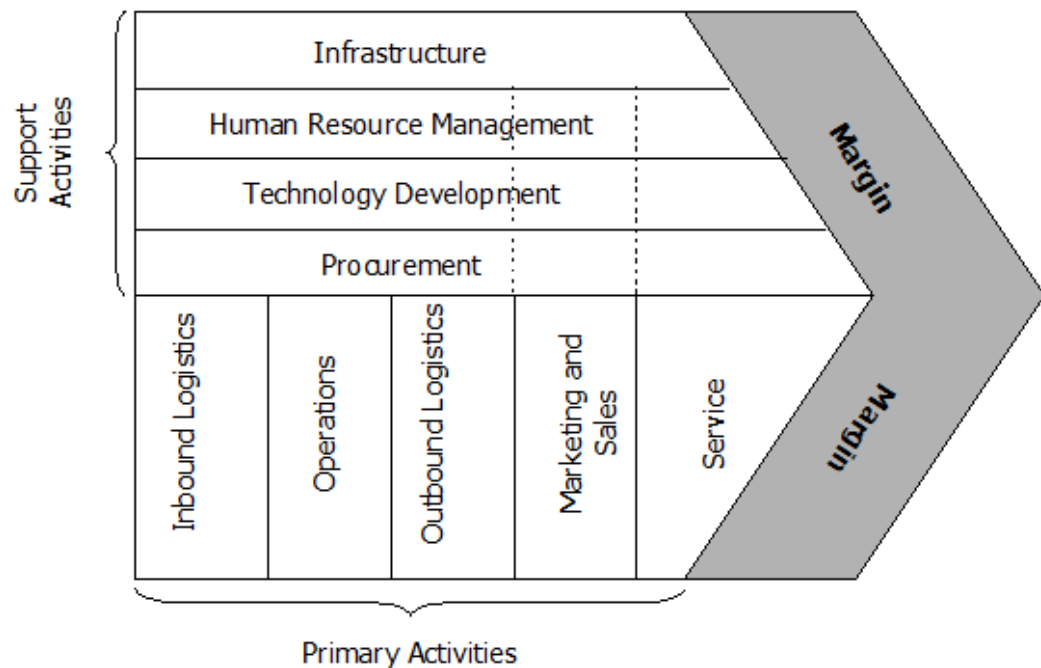
#### **4.2 BIS Group and the value chain**

It's the ultimate goal of any enterprise to create value. The term 'value chain' was used by Michael Porter in his book "Competitive Advantage: Creating and Sustaining superior Performance" (1985). Analysing a company's value chain involves describing the activities within and around an organization, and relates them to an analysis of the competitive strength of the organization. Therefore, it evaluates which value each particular activity adds to the organizations products or services.

Porter suggested as well that activities within an organisation add value to the products or services that it offers, and all these activities should be run at optimal level if the organisation is to gain any level of competitive advantage. If these activities are run efficiently the value obtained should exceed the costs of running them, that is, customers should always return to the organization and transact freely and willingly.

The BIS group is no different from any other organisation, as it too has its value chain which the author will give details about as we go on. Elements of Porter's value chain focus on systems rather than departments or accounting cost types. Focus is laid on the transformation of inputs into outputs purchased by the consumers. Using this view point,

Porter described a chain of activities common to all businesses, he divided these activities into primary and support activities as illustrated in the diagram below.



Porter 1985

FIGURE 5. Porter's generic value chain

Primary activities are said to be those which are directly concerned with creation or delivery of a service or product. They can be grouped into five areas as shown in the diagram above. Each of this primary activities is linked to support activities which help to improve their effectiveness or efficiency. In the four main areas of support activities it's worth noting that technology development includes R&D as well, while infrastructure can encompass many items such as finance, quality, planning systems, information management etc. The profit margin is the difference between the total value and the set of costs incurred by the company to carry out the source of value. Therefore how organizations manage the linkages between all these activities in the value chain dictates the kind of profit margin realized. In other words the aim of the organization should be to deliver a product or service for which the consumer is willing to pay more than the sum of the costs of all activities in the value chain.

These linkages are crucial in determining the level of corporate success. The linkages are said to be made of flows of information, goods/services, systems and processes for adjusting activities. The example below best illustrates the crucial role the linkages play in an organization.

Only if the marketing & sales function delivers sales forecasts for the next period to all other departments in time and in reliable accuracy, then this enables the procurement department to make orders for necessary materials. If procurement fulfils its role and forwards the order information to inbound logistics then operations can be able to schedule production in a way that guarantees the delivery of products in a timely and effective manner, as pre-determined by marketing (Recklies, 2001 1-2).

The BIS group's primary and support activities of its value chain have certain weaknesses that lag the company growth and contains unexplored potential. These activities are analysed below.

#### **4.2.1 Primary activities**

##### **Inbound Logistics**

This covers all company activities that involve receiving, storing and distribution of inputs internally. Here the supplier relationship plays an important role in determining the success of such activities. In the case of School of English SGSG it provided services, and its supplier relationship is the crucial part because it outsources a relatively high amount of activities. Having worked with the suppliers, it's clear that the supplier relationship was not at its best level. There are numerous complaints of late payments to suppliers or unpaid bills for services supplied. This acted as a huge hindrance to the flow of various activities. The same problems were identified with the Italian restaurant Capitali whose management was under the same roof as School of English SGSG.

##### **Operations**

It entails the process where services and products are realized, it's the way resource inputs are converted to outputs (services/products). In this part the operational system of the organization is charged with the task of adding or creating value to the product as it moves through the production line. BIS group being a diversified company, this process is very paramount in that, the value added to the intended end service or product should be very high in order to create a sense of uniqueness, and give the service a superior hand

in terms of competition. The services and products offered by BIS group are as well common in the market, hence the more need to pay extra attention to its operational system.

### **Outbound logistics**

These are all the activities involved in delivering the finished product or service to the customer. These are thinks like distribution systems, storage and collection. The BIS group's Italian restaurant, Capitali, is mandated with the task of preparing packed lunches to all visiting students of the school of English SGSG and all those students who come to England under its various tour packages. The timely delivery of this products to the target group was a big fail, as not on one occasion have the customers gone missing their packed lunches during their tours in London. This creates a very bad image and after sale customer relationship, this might affect the overall number of customers that will perhaps choose BIS group services in the future.

### **Marketing and sales**

To most companies this needs no emphasis on its importance in the general success of an organization. In the value chain it refers to the processes the company uses to persuade customers to purchase their products rather than from competitors. It's essentially an information activity which should ensure that the products and services are targeted towards the correct customer group. The company should create a marketing mix which establishes effective strategy, which clearly communicates to the customers the benefits the company offers through a promotional mix, these activities are the source of value in this part of the organizational value chain. The BIS group has a common marketing and sales department for all the companies under its roof, One thing that stands out is that the company has a huge amount of attention concentrated on the Italian market, yet the company boasts of a pool of international employees from all over Europe. There are efforts being made to expand its target customers to other parts of European countries other than Italy but the coordination of this marketing efforts have hit a snag. An effective promotional mix and customers segmentation lacks in these potential new markets.

### **Services**

These are activities which aim at maintaining the value of the company's product or service to the customers. After the product has been sold what support services does the

company offer to customers, should be the main question. Services may come in various forms such as sales training, guarantees and warranties. Since the BIS group's main customers are from the Italian market, the after sales services should be of high standards to be able to maintain customer loyalty and acquire even more customers for its products. School of English SGSG has a form of after sale service, where students can be refunded a certain amount of money if they miss their tour package due to unavoidable circumstances, but this privileges are not clearly communicated to new target customers during the promotional mix.

#### **4.2.2 Support Activities**

In figure 5, the dotted lines show that each support activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but also supports marketing and sales with other activities. These support activities are.

##### **Infrastructure**

These are the company's support systems and the functions that allow it to maintain daily operations. Every organisations should ensure these functions which include finances, legal structure, and administrative and general management structure work efficiently in order to drive the organisation forward and attain growth. Inefficient infrastructure waste resources, could affect the organization's reputation or even to the extreme leave it open to fines and sanctions. The Organizational structure is a major headache at the BIS group, given the fact that numerous subsidiary companies are under one management, an elaborate, clear and well managed structure should be in place and working well before the company can think of expansion.

##### **Human resource management**

In the service industry where the BIS group operates, human resource management plays a key role in creating a competitive advantage because customers are purchasing a service provided by the employees rather than a product which they can take along with them. This part of the value chain is concerned with the recruitment, training and development of the correct people to work for the organization to ensure its success. The employees ought to feel motivated to work and they should be enumerated at the 'market rate'. If



employees don't feel motivated or well-paid then this increases the company's employee turnover which the company's ability to add value to its chain of activities. This was one of the biggest challenge the author identified at BIS group. There is a huge number of interns working in various departments and run basically all the company activities, however the interns are not paid a dime for their effort. This has led to a lot of short term employment as interns don't feel motivated to work for a longer period of time at BIS group.

### **Technology development**

In the current world, information dissemination has been made so much easier than before due to technological advancements. The BIS group just like other organizations, should take full advantage of all benefits it could acquire from technological processes to add value to its activities. Technology development refers to the organisation's ability to obtain a competitive advantage through the use of various technological avenues in our world of technological driven markets. Technology can be used in many ways including production to reduce costs, research and development to develop new products and services and the utilization of internet platforms so customers have round the clock access to the firm's products and services. For the half an year that the author worked at BIS group there was no permanent employee who catered for the IT department, this neglect led to underutilization of the various technological assets available to the company. There was major problems in the internet connection and the online cloud service that was accessed for storage and sharing of company data. Even though this platforms were underutilized, the company still pays huge amounts of money in usage fee.

### **Procurement**

This involves what the organization does in the process of acquisition of the necessary resources it need to operate. This includes finding vendors and negotiating best prices. The biggest challenge for procurement is obtaining the best possible quality available in the market for the given company budget. BIS group doesn't have a proper functioning procurement team, this job is done on adhoc basis by various staff members, which contributes to work overlap and financial mismanagement (Mind tools, 1996-2015).

### 4.2.3 Conclusion

For a company to fully enjoy the fruits of diversification it must create a sense of uniqueness in its operations which the BIS group failed at. The company's value chain analysis clearly shows an organization which doesn't fully utilize its resources to add value to its final product or service. During the research period, a number of challenges facing the organization's value chain emerged.

- The organizational structure was lacking, breakdown of roles and positions was done yet the job descriptions were never laid out clearly.
- There were too many employees who did almost the same tasks, which led to work overlap and other interns having no tasks at all to do.
- There was no autonomy in each of the BIS group units, in terms of management and flexibility in decision making, this underestimated the role of the various managers tasked with running these subsidiaries.
- BIS group should lay emphasis on quality rather than quantity in its workforce. There are too many inexperienced interns, who end up not learning anything during their period of employment, the few employees who had a sort of experience were overwhelmed and most of them leave for other companies.
- Financial management at the BIS group is not adequately structured, which gives room for loopholes. There is no forecasting of costs or a budget in place, this has led to unplanned spending on items which are not of paramount importance to the company, leading to inadequate funds for purchases.
- The human resource department should get more involved in the running of the company. It should be more vigorous in its selection process of new employees, and put in place programs like induction process for new employees. As earlier mentioned majority of employees at BIS group don't have a pay check, even though most of them are on a full time contract, this kills their motivation to work and the ability to retain good employees is highly reduced

All these factors contribute highly to the challenge the BIS group faces as a diversified firm.

It's worth noting that in the value chain BIS group can create a differentiation advantage from any part. Differentiation is rooted in uniqueness, a differentiation advantage may be attained through changing individual value chain activities to increase uniqueness in the final product or by reconfiguring the value chain. There are several ways a firm can reconfigure its value chain to create uniqueness, it may opt for forward integration which

allows the firm to perform functions which once were performed by customers, or go the opposite direction to backward integration with the aim of having more control over its inputs. The firm can implement new process technologies or utilize new distribution channels. But the most paramount factor is creativity which the firm must embrace in order to develop a novel chain configuration that increases product differentiation.

Porter identified several drivers of uniqueness which BIS group can implement

- Policies and decision
- Linkages among activities
- Location
- Integration
- Scale (better service as a result of large scale)
- Institutional factors
- Interrelationships

Differentiation often results in greater costs, hence many of these drivers of uniqueness act as cost drivers as well, it's important to note that there will be trade-offs between cost and differentiation.

### 4.3 **Competitive advantage**

The BIS group has diversified its business activities through venturing into different types of markets, for it to sustain its diversified strategies now and in the future, it's very important for the decision makers to put into high consideration the aspect of Competitiveness. By this the author means, how well will the company cope with the threat of competition in the target markets. Whether starting a new business or looking into more insight of current company's prospect the biggest question always lingers around the competition.

One of the way a business in the same situation as The BIS group can understand its competition and its competitive advantage is through Michael Porter's five competitive forces that shape strategy. It's important for a business to use this five forces tool in order to understand where the power lies in a business situation, this understanding enables a company to identify its current competitive position as well as the strength of a position it is considering moving into. With all this clear understanding the company can take fair advantage of strength, improve a situation of weakness and avoiding venturing into wrong markets.

This tool comes in very handy for companies whose activities are aimed at diversification into new markets or products because it helps the companies identify whether these new products, services or markets have the potential to be profitable. “Understanding the competitive forces, and their underlying causes, reveals the roots of an industry’s current profitability while providing a framework for anticipating and influencing competition (and profitability) over time,” (Porter, 2008).

Porter argued that understanding both the competitive forces and the overall industry structure is crucial for effective strategic decision making. In porter’s five competitive forces model, the five forces that shape industry competition are illustrated in the figure below.



FIGURE 6. Porter’s five competitive forces (Mind Tools, 1996-2015)

The figure 6 outlines some of the key considerations that should be assessed under each competitive forces.

### Understanding Porter’s five forces tool

#### **Competitive rivalry**

This force examines the intensity of current competition in the target marketplace, the most important issue here is the number and capability of the company’s competitors. If

the firm faces many competitors who equally offer attractive products or services, then the firm will most likely have little power within the marketplace as suppliers and buyers will go elsewhere if they don't get a better deal. When rivalry competition this can result to hurting the company's bottom line through high advertising and prices.

### **Threat of new entrants**

This force gives an insight on the ease or difficulty of the firm's competitors to join the marketplace, where the costs of time or money to enter the marketplace are low, if there are few economies of scale in place, or if the firm has little protection for its key technologies, then the firm's position in the market place can be quickly weakened by new entrants.

### **Threat of substitutes**

In the situation where the firm's customers can switch with ease from the company's products to those of competitors, then the threat of substitutes is considerably high. This threat is informed by the switching costs, both immediate and long term, as well as a buyer's inclination to change. This force also looks at the number of current competitors, how their prices and quality compare to the firm's and how much of a profit those competitors are making which would ultimately influence their ability to dictate lower even lower prices.

### **Supplier power**

Suppliers play a very critical role in price determination, hence this force assesses the ease and potential of suppliers to drive up or control prices, which would in turn affect the firm's profitability. This force also looks into the cost of switching from one supplier to another, the uniqueness of their products among more. In an ideal situation the fewer the suppliers the more bargaining power they have, businesses are always in better position where there is existence of multitude of suppliers.

### **Bargaining power of buyers**

Every business that ventures into any marketplace the main goal is to secure a significant share of the market through having a huge customer base, hence this forces examines the ability of customers to dictate the level of prices the firm can charge for its products. Consumers have more power when they are few of them but many sellers and when there is ease of switching from one seller to another.

#### **4.4 The Research Methods**

The research methods used in this final thesis were utilized during and after the author's work placement period at The BIS group. There were two main methods and a third supporting method. The first and most important method was collection of information through various theories, which included but not limited to, theory of company growth and also theories surrounding corporate diversification strategies. The information gathered through this method was facilitated by use of multiple sources such as books, academic journals, e-books and online publications. Secondly, an open-ended brief questionnaire was used by the author in finding out the empirical information of the current situation mainly at the main company of the BIS group which is School of English SGSG as well as the newest subsidiary, Capitali Italian restaurant. The questionnaire was developed by the author in order to get a clear perspective of how both the management and employees of the BIS group view and experience the functionality of the company, and to determine what could be possible be improved to be able to steer the company to greater heights in terms of its growth and diversification strategies.

Last but not least, the author went on to seek an opinion or view of an expert through an interview. The interview can as a last resort so as to find expert opinion on how the problems identified in the questionnaire could be solved. The details of the interview will be discussed later in the consequent sub topics.

##### **4.4.1 The purpose and structure of the questionnaire**

The open ended questionnaire was mainly targeted at the management level employees who were involved in day to day running of their various departments of responsibility. The author laid more emphasis on this group of staff because they understood better the current as well as previous situation of the company because most of them had been working with the company for a prolonged time, hence they would be in a position to do a better evaluation of the current situation. The main purpose of the questionnaire was to find out more practical information regarding the company's diversification strategies currently and future, as well as get information about the experience of employees who

came into the company as interns, all in all the author was to seek personal suggestions on how current shortcomings in the company could be improved.

The questionnaire questions were brief but thorough, there were two sets of questionnaires, one for the management team and the other for the interns. The two questionnaires had varied questions because the author was aiming at getting more precise information from different angles. Both answering groups had varied levels of responsibility in the company therefore by targeting the questions this way, the author expected the answers to be more honest and accurate as well.

The questionnaire for the management team was crucial because its questions were seeking information regarding the operations of the company, in terms of company structure, future plans as well as perceived challenges. The questionnaire included 9 questions and a 10<sup>th</sup> question for adding information not already asked in the question, the interns questionnaire had 7 questions with an 8<sup>th</sup> questions for providing additional information. The questionnaire can be seen in the Appendix 1A and B, *questionnaire for management team and questionnaire for interns respectively*.

All the questionnaires were written in English. After the successful gathering of information from the questionnaire, the author seeks a professional viewpoint from a consultant in matters related to corporate diversification strategies. The professional views will be highlighted in the sub chapter below.

#### **4.4.2 The interview purpose**

The interview with an expert in matters relating to diversification strategies of corporates rose from the need to get a professional view point on the challenges identified in the questionnaires. The author having limited knowledge and experience in this subject matter, it prompted the inclusion of an expert to draw up possible recommendations for the BIS group.

The Interview was conducted shortly after the author's employment time at BIS group came to an end. The author was the interviewer while the expert the interviewee. The

interview took place in a café at central London. The expert opted for anonymity due to conflict of interest, as the said expert also doubles up as a business partner to the BIS group. The expert is a professional consultant in matters corporate, runs a consulting firm in London, but has vested interest in the Italian market as well.

The expert did an analysis of the company's diversification strategies based on the results gotten from the questionnaires, in order to suggest on what could be improved. The interview was very important for the author because the personal opinion of an expert in the field under research would enable the author of this thesis to draw up a more concrete conclusion and recommend more feasible solutions to the company.

#### **4.5 Research Results**

It is without any doubt that the author states that the answers gained from the questionnaires were in deed very resourceful and informative, this is because the answers gave an insight into the world of BIS group and its day to day operations. Information gained from these questionnaires provided answers to all questions and showed the urge for improvement, as well as what the various respondents viewed as challenges facing the BIS group.

The interview answers were as resourceful, the personal opinion of an expert gave an insight of the probable cause of the challenges that face BIS group as well as providing a way forward into formulation of better and conducive diversification strategies for the company.

##### **4.5.1 Management team answers analysis**

The first two questions of the management team questionnaire which are, "What best describes your current status in relation to the company?" and "What is your rank/position in the organization?" served as a means of profiling the respondent in relation to the responsibilities held in the company. Significant amount of information from this questionnaire was gathered from persons in the top level management, who include CEO and directors, as well as persons in the middle level management who include project managers and departmental managers. These were the best people to target for this particular



questionnaire because they were in the helm of decision making within the organization, these persons also had a reservoir of information about the company which could not be accessed through any other staff members.

The analysis of the answers given indicated that the current organizational structure had the potential to accommodate diversification if it was explored further, so as to achieve the company's expansion strategy, (please see questions 3 and 4 in the Appendix 1 A *BIS group questionnaires*). The results showed that 100% of the respondents agreed on the fact that the current organizational structure of the company was divisional management structure. This is whereby all units are under a central administration, whoever each unit has its own head who has a degree of flexibility in the decision making and day to day running of the unit. This type of organizational structure has the potential to propel the company to greater heights in terms of growth. The top management personnel responded in unison that the company aimed for internal capacity development as the company's choice of expansion strategy.

As mentioned above the management choice of expansion strategy influenced their response to question 5 which seek to find out the type of diversification in place or the company hoped to achieve. There was no variation in the respondents answers, the answers indicated that the company's ideal type of diversification is addition of new products, which are related to the current business activities. This was elaborated by the fact that the opening of the new Italian restaurant Capitali because the highest number of students coming to the UK on various educational packages offered by the School of English SGS were from Italy. The restaurant came as an additional product to support the company's main product. However when it came to future prospects there was a slight indication of the managements interest to expand into new markets by expanding client base. The expansion to new markets would result from the flexibility of the company's areas of interest as question 7 was finding out. The main areas of business were highlighted to be educational trips, English language courses and recreational tours. However with expansion to new market the company would expand its interests to cover work experience. The answers to question 6 were numerous but the analysis shows that the motivations to diversify that topped the list were:

- The need for growth
- Improve company stability/sustain company's survival

- The hope to enjoy economies of scope, this would be through building synergies in assets utilization
- The need to engage unutilized resources (human, technical, and financial)

Having worked at the BIS group finance department the analysis of the answers provided for question 8 was straight forward. The analysis showed that the company operates a centralised financial system where there is production of a single end of year financial statement for the whole company group. This is because the other subsidiary companies were not performing as much as the school of English because of less activities within them. Hence there was no need of producing multiple statements for each company.

Lastly the last two questions which covered the personal opinion of the respondents to factors that pose as challenges to company growth and its diversification strategies and any other issue, bore a lot of results. There were some challenges which were occurring over and over in various answers given by the respondents. The analysis of these results shows that the following are identified to top the list of threats or challenges to the company's growth and diversification agenda:

- Market saturation
- High overhead costs
- Fluctuating demand
- Low flexibility in operation as well as the implementation of current organizational structure.

The question 10 which was asking for any other matter, answers given in this section mainly revolved around the possible threats to company growth, the major ones identified by the analysis were:

- There company was running too many peripheral activities
- The company is unable to build enough synergies for profitable growth
- There was inadequate planning before diversification of the company was rolled out

However the management respondents also expressed optimism for future growth as prospects for the company were growing.

#### 4.5.2 Intern team and the interview answers analysis

Just like in the management team questionnaire the initial two questions of the interns' questionnaire focused on profiling the respondent, by inquiring of their rank in the company as well as a short description of their current status in relation to the company. Mainly answers got from this questionnaire were mainly from the interns who were on short term contract with the company as a requirement of their academic endeavours, the interns were usually in the company for a maximum of 6 months but most of the authors respondents at that particular time had contracts of 3 – 4 months. The low level management was also involved in this questionnaire.

As earlier mentioned in the company introduction section, most of the interns who work for the BIS group have little or no previous work experience yet they are given certain positions of responsibilities that would otherwise be given to an experienced personnel who has been working in the company for quite some time. This factor prompted the author to draw up the questions 3 and 4 (please see Appendix 1B, *Questionnaire for interns*). A stunning 60 % of the respondents gave a negative response to question 3, sighting the reason as to their lack of previous work experience. The responsibilities at times were overwhelming thus incapacitating their ability to perform remarkable in their areas of responsibilities. Also there were answers that expressed lack of any experienced individual in certain departments including the head of the department. Another 35 % of the respondents gave a positive answer, giving an indication that their responsibilities were well assigned with their level of experience, while 5 % were not sure. For question 4, which acted as a follow up of question 3, it contained multiple choice questions. The answers gotten from this question was astonishing with a huge percentage of the respondents acknowledging that they had limited or no knowledge at all of the company's business strategy. This results showed that a significant high number of employees were working without a purpose of accomplishment. Even though they were in the company for a short period they should have known what they working towards achieving as part of the company.

Question 5 got its fair share of constructive criticism from the respondents, there were numerous opinions of the company performance, but the major concerns that topped the

list were, lack of proper management structure and lack of enough experienced people, which in turn affected the performance of the company. However just like the management team some respondents exhibited optimism for future prospects. Question 6 was similar to the management team however the target group here gave their opinion on another angle from the management level. The top threats or challenges as seen by the interns were:

- Huge amounts of underutilized resources, sighting the presence of fully furnished offices which are not used.
- A large number of inexperienced staff handling most of the company's operations.
- Lack of remuneration to the interns, who actually make up over 60 % of the entire company staff.
- Lack of proper leadership structure within most departments
- Lack of proper synergy between the various organisational departments which undermine company growth.

Surprisingly Most of the respondents to question 7 indicated that they were willing to take up a permanent position within the company but only if there were large improvements in the areas highlighted to be company weak points. Also some respondents in this question were willing to take up a permanent position with the company only if the company offered remuneration in the form of monthly salary regardless of its current weak points.

## 5 CONCLUSION AND RECOMMENDATION

After a close analysis of the answers gotten from the questionnaire, the author drew a conclusion based on this answers. BIS group has enormous potential for growth and better performance, however currently the weight of underperformance in author's own opinion is weighing down the organization. There was expression of few good points of the company such as a very international and readily available work force which the company can explore in order to fulfil its objective of diversification even in beyond the borders of the United Kingdom. Secondly BIS group has already curved a market niche for itself, it has a huge customer base in the Italian market and good future prospects of expanding to other markets such as Turkey and France. However these prospects alone can't steer the company to greater performance, intervention is needed to eliminate as many weak points as possible which are hindering the company's growth agenda.

BIS group woes mainly revolve around the mode of management and company structure. Diversification is a complex option to choose when aiming for growth, because it requires a lot of attention in deciding on the type of new product to add to its portfolio that would enable the firm to branch into new market and bring value to the company in order to achieve economic gains. In addition diversification requires a firm to change its mode of operation from its traditional one to accommodate change as new products require new knowledge that might be lacking in the traditional mode of operation. If proper planning is not taken into consideration by the diversified firm, problems such as constraint on capital flow and allocation can arise which will greatly undermine the firm's performance. Given this background and the current situation of the BIS group the author of this thesis highly recommends that BIS group should pay more attention to two factors, initial conditions and the importance of core competences before it goes further with its diversification agenda.

The above recommendation was further given an approval during an interview the author conducted with an expert in matters relating to corporate diversification. Core competences are a combination of pooled knowledge, experience, technical capacities, etc. that allow the firm to gain competitive advantage in the market place, by reducing its overall costs or time required to either create a new strategic asset or expand its existing one. Based on the opinion of the expert firms that have initially built on their core competences

before diversification have a high likelihood of experiencing successful diversification. Diversification alone cannot be the only means of solving a firm's poor performance, in essence BIS group must understand that the success of its diversification agenda to attain growth not only depends on the industry performance, but the firm's ability to create initial conditions through mastery of its internal variables. This can reasonably indicate to the fact that a firm's successful performance and growth is as a result of its initial favourable conditions and proper management of its core competences. In summary the author recommends that BIS group first needs to be successful in its current or main line of operation, that is, have favourable initial conditions, build on its core competences which will in turn create positive conditions for competitive advantage before it can achieve success in its diversification strategies.

Financial performance is a main concern for the BIS group that is why the author sort to carry out financial based recommendation as well. For BIS group to achieve better financial performance while pursuing its diversification strategies it must improve efficiency in its operations, exercise financial control over all its activities to avoid misappropriation of funds which decrease the company's turnover, and lastly BIS group ought to look into other areas of its value chain in order to increase performance. The interview conducted by the author came up with ways that the company could employ in order to measure the company's economic performance. BIS group economic performance can be measured on the basis of assets, corporate turnover, sales volume, volume of output, share of the market and profit. The author recommends BIS group to use calculations and analysis ratios which will enable them measure the use of company assets and control of its expenses to generate acceptable rates of return. The recommended ratios for BIS group are as follows:

Return on Total Assets (ROTA) – It's the ratio of sales revenue to capital employed, also referred to as net asset turnover. It's calculated as follows.

$$\text{ROTA} = \frac{\text{Sales revenue}}{\text{Capital employed (net assets)}} \times 100\%$$

Profit Margin (PM) – also known as operating profit margin, it's the ratio of profit before interest and tax (PBIT) to sales revenue

$$\text{PM (net)} = \frac{\text{PBIT}}{\text{Sales revenue}} \times 100\%$$

In the future if BIS group acquires shareholders, then the following ratios will come in handy in assessing the company performance.

Return on Equity (ROE) – This is a measure of company's performance as seen by the shareholders, it's essential in the calculation of this ratio to use profit for ordinary shareholders, which is profit after tax and interest charges.

$$\text{ROE} = \frac{\text{profit after tax and preference dividends}}{\text{Average ordinary shareholders' equity}} \times 100\%$$

Or

$$\text{ROE} = \frac{\text{Profit after Tax}}{\text{Share Capital} \pm \text{Reserves}} \times 100\%$$

Return on capital employed (ROCE) – this a ratio of profit to capital employed. It is worth noting that to get a proper analysis of this ratio, ROCE of current year should be compared to that of the previous year. Its calculation is as follows:

$$\text{ROCE} = \frac{\text{Profit before finance charges and tax}}{\text{Average capital employed}} \times 100\%$$

Or

$$\text{ROCE} = \frac{\text{Profit}}{\text{Capital employed}} \times 100\%$$

## 5.1 Summary and discussion

The ultimate goal of this thesis was to seek insight into various corporate diversification strategies and how BIS group or a company in the same situation as BIS group could explore these diversification strategies to attain better performance and growth. The author went through the current diversification position BIS group is at and through the research methods employed we were able to find out some weaknesses as well as

strengths, the need for improvement and get a glimpse of the factors that the company must achieve in order to enjoy the fruits of a successful diversification process.

From the answers received in the questionnaire we are able to determine that BIS group does not have a vivid picture or plan on how it will execute its diversification strategies. This in turn has caused numerous challenges as ascertained by both the management team and employees. This is why BIS group should strive to put its house in order and do away with those recurrent challenges that hinder the company from achieving its full potential. The management should be overhauled to give room for more efficiency in operations. Matters relating to experience should be as well looked into as the company highly depends on the expertise of its employees to achieve its goals, BIS group should focus more on the quality rather than quantity of its staff. Downsizing will definitely help BIS group to gain momentum in its growth agenda, this is because the extra resources used on unproductive activities can be reassigned to more economically meaningful venture. It becomes clearer that BIS group is not yet ready for take-off towards diversification. This is given the fact that it has not yet built upon its core competences which is greatly undermining its ability to be competitive in terms of gaining competitive advantage over its competitors. This becomes a major issue of concern as the company operates in an already saturated industry where competition is high.

But all is not lost, BIS group's potential is still unlocked and with proper implementation of the said recommendations based on the numerous theories surrounding diversification, the company will eventually blossom, experiencing good performance and growth.



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## APPENDICES

### Appendix 1 A. *Questionnaire for Management team*

1. What best describes your current status in relation to the company?
2. What is your rank/position in the organization?
  - a. Top Level Management – CEO, Directors, etc.
  - b. Middle Level Management – Divisional managers and project managers
  - c. Low Level Management – Group coordinators and assistant managers
3. How can you best describe the management structure of the company currently?
4. What is the company's strategy for expansion?
5. How can you best describe the type of diversification currently in the company or which the company hopes to achieve?
6. What factors motivate the company to venture into diversification strategies?
7. What are the major areas of business interest for the organization?
8. Does the company operate a centralized financial reporting system?
9. What are the threat or challenges preventing company growth/diversification?
10. Any other issue?

Appendix 1 B. *Questionnaire for interns*

1. What best describes your current status in relation to the company?
2. What is your rank/position in the organization?
3. Does your rank match up with the assigned responsibilities and personal experience? If no, explain.
4. Which of the following best describes your current knowledge of the company's business strategy?
  - a. Full Knowledge
  - b. Limited Knowledge
  - c. No Clue at all
  - d. Other, explain.
5. Give a short opinion of your view point of the company's performance from your position of responsibility
6. What challenges/threats do you think are hindering the company from attaining growth and what areas need improvement?
7. Would you consider to take up permanent employment at the BIS group?
8. Any other issue?

